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AFG.N - Q1 2025 American Financial Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the American Financial Group 2025 first quarter results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Diane Weidner, Vice President of Investor Relations. Please go ahead.

Diane Weidner - *American Financial Group Inc - Vice President - Investor Relations*

Thank you. Good morning, and welcome to American Financial Group's first quarter 2025 earnings results conference call. We released our 2025 first quarter results yesterday afternoon. Our press release, investor supplement, and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group, and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause our actual results and/or our financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or in responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release. And finally, if you're reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, and as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I'm pleased to turn the call over to Carl Lindner III to discuss our results.

Carl Lindner - *American Financial Group Inc - Co-Chief Executive Officer, Director*

Good morning. I'll begin by sharing a few highlights of AFG's 2025 first quarter results, after which Craig and I will walk through more details. We'll then open it up for Q&A, where Craig, Brian, and I will be happy to respond to your questions. AFG's first quarter results were solid in the face of

elevated industry catastrophe losses and heightened levels of economic volatility. In addition, we returned over \$290 million to our shareholders during the first quarter of 2025 through a combination of regular dividends, special dividends, and share repurchases.

Our compelling mix of specialty insurance businesses, entrepreneurial culture, disciplined operating philosophy, and an astute team of in-house investment professionals continue to serve us well in environments such as these and position us for long-term success. Craig and I thank God, our talented management team, and our great employees for helping us to achieve these results.

I'll now turn the discussion over to Craig to walk us through some of the details.

S. Craig Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Thank you, Carl. Please turn to slides 3 and 4 for a summary of earnings information for the quarter. AFG reported core net operating earnings of \$1.81 per share in the 2025 first quarter. This year-over-year decrease reflects lower P&C insurance underwriting profit and lower returns in AFG's alternative investment portfolio. Now I'd like to turn to an overview of AFG's investment performance and financial position and share a few comments about AFG's capital and liquidity.

The details surrounding our \$16 billion investment portfolio are presented on slides 5 and 6. Excluding the impact of alternative investments, net investment income in our property and casualty insurance operations for the three months ended March 31, 2025, increased 6% year over year as a result of the impact of higher interest rates and higher balances of invested assets. Property and casualty net investment income including alternative investments was approximately 17% lower than the comparable 2024 period.

As you'll see on slide 6, approximately 66% of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 5.75% and actually exceeded 6% on the investments that we made in the first quarter of 2025. Current reinvestment rates compare favorably to the 5% yield earned on fixed maturities in our P&C portfolio during the first quarter of 2025.

The duration of our P&C fixed maturity portfolio, including cash and cash equivalents, was 2.8 years at March 31, 2025. The annualized return on alternative investments in our P&C portfolio was approximately 1.8% for the 2025 first quarter compared to 9% for the prior year quarter, due primarily to returns below expectations in our traditional private equity portfolio. Earnings from alternative investments vary from quarter to quarter based on the reported results of the underlying investments and generally are reported on a quarter lag. Elevated economic uncertainty could continue to temper returns in AFG's alternative investment portfolio in 2025. Longer term, we remain optimistic regarding the prospects of attractive returns from our alternative investment portfolio, with an expectation of annual returns averaging 10% or better. In March of 2025, AFG announced that it had reached agreements to sell the Charleston Harbor Resort and Marina. Assuming the successful completion of the diligence period and satisfaction of other customary conditions, the transaction is expected to close in the third quarter of 2025. AFG currently expects to recognize an after-tax core operating gain of approximately \$100 million, or \$1.20 per share, on the sale. This transaction was not contemplated in AFG's original business plan assumptions.

Please turn to slide 7, where you'll find a summary of AFG's financial position at March 31, 2025. During the quarter, we returned over \$290 million to our shareholders, including \$58 million in share repurchases, the payment of a \$2.00 per share special dividend, and our \$0.80 per share regular quarterly dividend. We expect our operations to continue to generate significant excess capital throughout the remainder of 2025, which provides ample opportunity for acquisitions, special dividends, or share repurchases. We evaluate the best alternatives for capital deployment on a regular basis.

We continue to view total value creation, as measured by growth in book value plus dividends, as an important measure of performance over the longer term. For the three months ended March 31, 2025, AFG's growth in book value per share excluding AOCI plus dividends was 2.5%. Our strong operating results, coupled with effective capital management and our entrepreneurial opportunistic culture and disciplined operating philosophy, enable us to continue to create value for our shareholders.

I'll now turn the call over to Carl to discuss the results of our P&C operations.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Thank you, Craig. Please turn to slides 8 and 9 of the webcast, which include an overview of our first quarter results. Our Specialty Property and Casualty businesses performed well during the first quarter of 2025 despite elevated catastrophe losses stemming from the California wildfires, with our underwriting results playing out in line with our expectations. I'm pleased that our overall Specialty Property and Casualty accident year, excluding cat loss ratio improved 1.8 points year over year and was the lowest it has been in recent years. Looking at a few details, you'll see on slide 8 that our Specialty Property and Casualty insurance businesses generated a 94% combined ratio in the first quarter, 3.9 points higher than the 90.1% reported in the first quarter of 2024, driven by higher catastrophe losses and lower levels of net favorable reserve development.

Results for the 2025 first quarter include 4.5 points related to catastrophe losses, due primarily to losses from the California wildfires. By comparison, catastrophe losses added 2.3 points to the combined ratio in the 2024 first quarter. First quarter 2025 results benefited from 1.3 points of favorable prior year reserve development, compared to 3.3 points in the first quarter of 2024.

First quarter 2025 gross and net written premiums were 2% and 1% lower, respectively, than the comparable period in 2024. We continue to achieve year-over-year premium growth in selected businesses as a result of a combination of new business opportunities, a good renewal rate environment, and increased exposures. However, strategic decisions to optimize long-term results, including the non-renewal of certain underperforming accounts, and proactive underwriting measures to address the impact of social inflation and competitive market conditions in selected lines of business tempered growth in the quarter.

When we adjust to exclude the impact of several large accounts that weren't renewed, overall Specialty Property and Casualty gross written premium grew by 2% year over year and net written premium was up 1%. Maintaining underwriting discipline has been paramount. While pricing and underwriting actions moderated our growth this quarter, we're positioned for future success, and we continue to expect premium growth for the full year in 2025. Average renewal pricing across our property and casualty group, excluding our workers' comp business, was up approximately 7% in the first quarter, and up approximately 5% overall. We have reported overall renewal rate increases for 35 consecutive quarters, and we believe we are achieving overall renewal rate increases in excess of prospective loss ratio trends to meet or exceed targeted returns.

Now I'd like to turn to slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. Details are included in our earnings release, so I'll focus on summary results here. Before I begin, I want to point to a reclassification that we made this quarter. Historically, AFG has reported results from its internal reinsurance facility that assumes business from several of our Specialty Property and Casualty businesses within our Specialty-Other Group. Beginning in the first quarter of 2025, we're presenting the results of the business assumed by our internal reinsurance facility within the same reporting groups as the ceding businesses.

The overall results for AFG Specialty Property and Casualty insurance operations aren't impacted by this reclassification. Comparable prior year results have been recast accordingly. We believe this presentation better reflects the performance of the underlying operating businesses, improves our ability to evaluate results, and enhances our financial reporting.

The businesses in the Property and Transportation Group achieved a 92.5% calendar year combined ratio overall in the first quarter of 2025, 4.0 points higher than the 88.5% reported in the comparable 2024 period. The first quarter 2025 combined ratio benefited from 3.9 points of favorable prior year reserve development, compared to 8.8 points in the 2024 first quarter, reflecting especially strong results then for our property and inland marine and crop businesses in the prior year period.

First quarter 2025 gross and net written premiums in this group were both down 6% from the comparable prior year period. As noted earlier, the decrease was primarily due to the non-renewal of a few large policies in our agricultural and transportation businesses, coupled with elevated pricing competition in our transportation businesses.

The year-over-year decrease in premium was partially offset by new business opportunities, a favorable rate environment, and higher exposures. Excluding the impact of the non-renewals, gross written premiums in this group were up 2%, and net written premiums were flat. Overall renewal rates in this group increased approximately 7% on average in the first quarter of 2025. We continue to remain focused on rate adequacy, particularly

in our commercial auto liability line of business, where rates were up approximately 17% in the first quarter. This is our 14th year of rate increases in this line.

As for crop insurance, industry estimates for the 2025 planted acreage for corn and soybeans overall are generally unchanged from the 2024 levels, and planting progress is slightly ahead of historical averages. Generally speaking, for the vast majority of our insured crops, the corn planting window runs from mid-April through the end of May, and the soybean planting window runs from late April to the end of June. It's very early in the growing season.

Current commodity futures for corn and soybeans are trading about 6% and 3% lower, respectively, than the 2025 spring discovery prices. While the year-over-year decrease in spring discovery pricing for soybeans will impact premium written, our crop results for 2025 will depend on the harvest yields and prices in the second half of the year.

The businesses in our Specialty Casualty Group achieved a 97.6% calendar year combined ratio overall in the first quarter, 5.4 points higher than the 92.2% reported in the comparable period last year. First quarter 2025 gross and net written premiums decreased 3% and 4%, respectively, when compared to the same prior year period. The [lower] (added by company after the call) year-over-year premiums were primarily attributed to our excess liability, executive liability, and workers' comp businesses, and were partially offset by higher year-over-year premiums in our mergers and acquisition business, and new business opportunities and favorable renewal pricing in several of our other casualty businesses.

Excluding our workers' comp businesses, renewal rates for this group were up 9% in the first quarter. Pricing in this group including workers' comp was up about 6%. I'm pleased that we achieved renewal rate increases in the mid-teens in our most social inflation-exposed businesses, including our social services and excess liability businesses.

The Specialty Financial Group continued to achieve excellent underwriting margins and reported an 87.0% combined ratio for the first quarter of 2025, only 0.4 points higher than the comparable period in 2024, despite the elevated catastrophe losses in the quarter. First quarter 2025 gross and net written premiums in this group were up 16% and 18%, respectively, when compared to the prior year period, due primarily to growth in our financial institutions business. Renewal pricing in this group was up approximately 2% in the first quarter.

Craig and I are proud of our proven track record of long-term value creation. We have years of experience navigating economic and insurance cycles. Although there's heightened economic uncertainty and developments with regards to tariffs are a fluid situation, we believe we're well positioned to navigate these challenges. While many of our businesses are insulated from direct tariff risks, an economic slowdown does pose secondary risk to several of our businesses. We believe the impact of these tariffs will be mitigated through various strategies such as advanced inventory build-ups, substitution of goods, and reorganizing operations. Nevertheless, this uncertainty is another reason we continue to be hyper focused on pricing discipline and loss trends. Our insurance professionals continue to exercise their specialty property and casualty knowledge and experience to successfully compete in a dynamic marketplace. Our in-house investment team has been both strategic and opportunistic in the management of our \$16 billion investment portfolio. One of our greatest strengths is finding opportunities in times of uncertainty. I believe we're well positioned to continue to build long-term value for our shareholders for the remainder of 2025 and beyond.

We'll now open the lines for the Q&A portion of today's call. And Craig and Brian and I would be happy to respond to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Zaremski, BMO Capital Markets.

Michael Zaremski - BMO Capital Markets - Analyst

Hey, thanks. Good morning. My first question is just about the expense ratio in the context of the 92.5% combined ratio guide. It appears to be some meaningful expense ratio changes both sequentially and quarter over quarter. Any color you can offer us on kind of whether there's something going on with business mix shift or reinsurance, so we can kind of better understand how to think about these moving parts.

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

Sure, Mike. This is Brian. There's a few things going on there. Part of it is mix of business. You can see, for example, we had significant growth in our financial institutions business, offsetting some of the slower growth or lack of growth in the other segments, and that business runs at a different expense ratio than some of the other businesses.

We also are spending a lot of time on making sure that we're not just looking at what we're doing this quarter, but looking into the future and have some expenses around software and IT initiatives in the areas of information security, customer experience, and data analytics that will help us to keep the great results we've had going on for years in the future, but there's a little bit of a drag from that right now on the expense ratio.

Michael Zaremski - BMO Capital Markets - Analyst

Okay. That's helpful, Brian.

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

I just would add also that in our business plan, we built that in so that was expected in the business plan. We expected to have the expense ratio be a little higher.

Michael Zaremski - BMO Capital Markets - Analyst

Okay. Got it. That was -- okay. Got it. One more numbers question probably for you, Brian. On the amount of catastrophes this quarter, it was kind of just barely above the California catastrophe range that you had offered previously. So it almost implies that either the Cali losses came in lower or there just really weren't much of any cats outside of California. How should we think about that?

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

It's a little bit of both. So the cats for the California wildfires did come in at the low end of the range, and then there was just around \$10 million or so of other smaller cats in the quarter. So it's mostly the California wildfires, but that did come in a little bit better than expected.

Michael Zaremski - BMO Capital Markets - Analyst

Okay. Got it. And my final question, and I have a follow-up on some of the prepared remarks about growth. And just I think investors and you all focus on profitable growth rather than just pure top line growth. If we look very long term for American Financial Group, I believe P&C premium growth was a touch higher than the than the industry, so you took a little bit of share but it has ebbed and flowed. I know that during the Great Financial Crisis, the premium growth was much lower. Just curious, are we at a point in the cycle where it just doesn't make as much sense to just looking at the 1Q growth levels that came through? Are we at a point in the cycle where it just doesn't make sense to grow as much as you had previously thought? Or is it also a tie-in from less economic activity or both? Or any thoughts on where we are in the cycle? Thanks.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Yeah. No, I think we'd love to grow in almost every one of our businesses in that. Competitive pressures in businesses like public D&O in particular, and we've seen some MGA activity in the commercial auto side, believe it or not, and some of those kinds of things. But then a chunk of our business, as I've talked about in the past, probably 12% or 13% of our business is workers' comp. And rates, we project that will continue to be down maybe a couple of percent this year - that acts as a little bit of a headwind. And crop prices, I think I mentioned soybean prices were down in the discovery prices. And again, that's a decent chunk of our -- 12% of our net written premium or something - where because of soybean prices, business will probably be down some this year.

I think also, we continue on a number of our social inflation-exposed businesses like our human services business. I think we talked about over the past couple of quarters, we've made a decision to get off of some \$50 million of business over a year's period of time. So I think there and excess liability where we've kind of repositioned ourself with lower limits, paying higher up with increased rate. Taking a defensive position, which we think is intelligent on some of those businesses, we think that makes sense. So we don't have one of the better combined ratios and pre-tax returns as a company overall over 5- and 10- and 15-year period of time for just any reason. I think we try -- we're long-term owners, long-term thinkers. And in a particular quarter, if we don't like what a number of large accounts, we don't like the pricing or if the competition is willing to way undercut us on large accounts, it doesn't bother us to let some of that business go or to non-renew business. I hope that's helpful.

Michael Zaremski - BMO Capital Markets - Analyst

It is. Thank you.

Operator

Andrew Andersen, Jefferies

Andrew Andersen - Jefferies - Analyst

Hey, good morning. Just trying to think about the guidance that you detailed last quarter and at the time you were talking about \$10.50 of EPS. Now that was before the \$1.20 gain on sale. So should we think of the EPS guide for '25 being about \$1 higher now?

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

Hi Andrew, this is Brian. When you look at our numbers, I think it's as you said, the Charleston Harbor transaction, the real estate transaction, was not contemplated in that original business plan of \$10.50, so that would be incremental. That being said, the alternative investment portfolio returns in the first quarter were below our expectations. And with the uncertainty in the financial markets that we're seeing really almost every day, that's very hard to predict going forward. We don't have a real good way to predict what alternative investments will be as the market is moving all of the time. So it's really hard to say whether we'll hit the \$10.50 or not. What we have said is that there will be some pressure potentially on the alt returns in the second half of the year. And the premium growth will depend on opportunities that we see to grow in the ways that Carl just spoke about before. But we're not updating our business plan, as our business plan is really our view at the time we put that together back in February.

And so I wouldn't take the fact that we haven't updated that, I wouldn't take that as necessarily saying that we're still right on those numbers. But with the variability out there in the economy, we think that if everything sort of stays how it is, there will be a plus for the Charleston Harbor sale. But premium growth is muted in the first quarter. We still expect it to be positive for the year. And then the alternatives, like I said before, it's tough to predict what will happen in there with the economic volatility.

Andrew Andersen - Jefferies - Analyst

Okay. And then just on the premium growth for the year, I think that was relative to a 5% guide originally. So is this maybe more of like a low single-digit environment as you're thinking about it?

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

With what happened in the first quarter, it probably won't be 5%, it will be lower, but we're still expecting positive for the year.

Andrew Andersen - Jefferies - Analyst

Thank you.

Operator

Meyer Shields, Keefe, Bruyette & Woods.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Great, thank you so much. And thanks for taking my question. I guess first question, when we look at Property and Transportation, we've had a couple of quarters of year-over-year premium declines. Is it safe to assume that this process of reviewing accounts for profitability implies some pressure in written premium for the next two quarters as well, so you've gone through a year of review?

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

It's impossible to forecast, Meyer. We're -- particularly in the trucking side and passenger -- there's some very large accounts that you're repricing. And so very hard to predict whether you keep those or whether you don't based off of competition on a given day. At our pricing terms, we'd like to grow that business. But it can be lumpy in that part of the transportation side of things.

I have been very consistent in saying that we're doing overall well as far as returns, particularly when you include workers' comp on our National Interstate and Vanliner business and our transportation business earning the right returns. But I've been very, very straightforward about the commercial auto liability side of that. We have a small underwriting loss that I want to see move to an underwriting profit. So some of the decisions being made on particularly some large accounts when the results aren't good with those, you can have a meaningful, positive impact by non-renewing or repricing something in that. So I'm serious about improving the margins there and improving the margins overall with our transportation business.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay. Understood. And that's helpful. Second question, I guess, if we look at Specialty Casualty according to the new segmentation, seems like there's been consecutive quarters of adverse development. Has there been sort of a deeper dive to address maybe it's elevated social inflation or some other components just to make sure that you've gotten your arms around it at this point?

Brian Hertzman - American Financial Group Inc - Chief Financial Officer, Senior Vice President

So we're reacting every quarter to changes in potential loss trends and expenses. So when you look at the Specialty Casualty Group, there's really two things going on there. One is that we're still seeing good favorable development coming out of workers' comp, but not at quite the same levels that it was in previous quarters. So in previous quarters, you might have seen the workers' comp favorable development being higher than

any kind of one-off adverse development in the other businesses. In this particular quarter and in the fourth quarter, we had favorable development in workers' comp, but then we had some adverse development in the social inflation-exposed businesses. So there is a little bit of adverse development, small amounts in a number of older accident years in our excess and surplus businesses and in some of our targeted markets businesses that are just bigger than the favorable development in workers' comp. Then the other thing is in our directors and officers executive liability business, that throws off a lot of favorable development, but we've been cautious there the last couple of quarters due to some of the things in that industry overall.

Carl Lindner - American Financial Group Inc - Co-Chief Executive Officer, Director

Yeah and I think the other obvious thing is, when we got rid of the Specialty Other and consolidated that into the other segments, Specialty Casualty, the unfavorable development tied to our excess liability business over the last couple of quarters and this quarter now is consolidated into Specialty Casualty. I think actually, that probably was probably the biggest impact maybe in that segment from a combined ratio standpoint.

Meyer Shields - Keefe, Bruyette & Woods, Inc. - Analyst

Okay. That's helpful. And I think the new segmentation is just a cleaner representation. So, thanks for that.

Operator

(Operator Instructions) At this time, I'm showing no further questions. I would now like to turn it back to Diane Weidner. Your line is now open.

Diane Weidner - American Financial Group Inc - Vice President - Investor Relations

Thank you, and thanks to all of you for joining us this morning and for your good questions. We look forward to catching up with you again as we release our second quarter results later this year. Have a great day, everyone.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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